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CURRENT SUPPORT BRIEF

NORTH KOREA IMPROVES BALANCE OF PAYMENTS POSITION

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NORTH KOREA IMPROVES BALANCE OF PAYMENTS POSITION

The excesses of the North Korean "Flying Horse" campaign (North Korea's modified version of Communist China's "Leap Forward") resulted in severe imbalances in foreign trade in 1958 and 1959. A sharp reduction of imports, particularly of investment goods, and a concerted effort to expand exports were required during 1960 to rectify the imbalances with the USSR and European Satelllites, which together account for 50-60 percent of North Korea's trade. Continuing balance of payments pressure to restrict imports in 1961 and through the early part of North Korea's Seven-Year Plan (1961-67) was largely eliminated, however, when the USSR freed North Korea from debt repayment and when Communist China provided new credits.

Ambitious economic goals set by North Korea in 1958 and 1959 during the "Flying Horse" campaign resulted in a surge of imports in 1959, particularly of machinery and equipment from the USSR and Eastern Europe, which were not offset by sufficiently rapid increases in exports. Part of the surge of imports in 1959 was caused by stepped up shipments of goods originally scheduled for 1960 delivery. North Korea's increased imports caused trade deficits with the USSR amounting to \$11 million in 1958 and \$23 million in 1959. North Korea's trade indebtedness to the European Satelllites can not be measured precisely because a portion of the Satellite's export surpluses each year have been financed under aid agreements. A similar deficit probably was incurred in trade with Communist China although supporting information is lacking.

The mood for 1960 was more realistic and the year was designated by North Korea as a period of consolidation. This was reflected in North Korea's trade with the European Communist countries, where imports fell by 47 percent below 1959, while exports increased by 30 percent. Both internal economic conditions and balance of payments difficulties were responsible for the sharp reduction of imports. The retrenchment was most pronounced in trade with the Soviet Union, where North Korea's imports were reduced by 47 percent (imports of machinery and equipment were reduced 67 percent) from the level of 1959. At the same time, North Korea's exports to the USSR were increased 44 percent. The resulting export surplus of \$35 million thereby offset the indebtedness of the two previous years. North Korea also reduced imports from Eastern Europe in 1960 by about 47 percent, but exports declined about 13 percent as well, resulting in another trade deficit with the European Satelllites of \$10-15 million. North Korea's inability to eliminate this deficit probably reflected a shortage of metals, minerals, and chemicals for export. Thus, a resumption of large-scale imports of investment goods in 1961 was at least partially dependent on securing additional external aid.

The Soviet Union, in an apparent response to North Korea's payments difficulties, agreed in November 1960 to cancel repayment of \$190 million worth of previous credits to North Korea, and to extend the term of repayment for another credit of \$35 million. This action freed North Korean exports from debt repayment and paved the way for increased trade with the USSR to support the goals of Pyongyang's Seven-Year Plan. This was made explicit in December 1960 when the USSR and North Korea concluded a long-term trade agreement (1961-65) calling for an increase in the volume of trade 80 percent over the preceding five-year period, and a technical assistance agreement covering the construction and expansion of industrial plants during the Seven-Year Plan. In an agreement signed in October 1960, Communist China provided new credits amounting to

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\$105 million to finance imports during this same plan period.

Largely as a result of these agreements, North Korea probably was able to resume substantial imports of investment goods last year, but no confirming data are available. Recently published investment data for 1961, however, show that 41 percent of North Korea's total investment went to heavy industry where emphasis continued to be placed on machine-building, metallurgical, and electric power facilities, all of which depend heavily on imports from the USSR and European Satellites.

Table 1

North Korea's Trade with the USSR and European Satellites, 1959-60

	Thousands of US \$	
	1959	1960
North Korean Imports		
USSR <u>a/</u>	74.1	39.4
European Satellites <u>b/</u>	50.1	27.0
Total	<u>124.2</u>	<u>66.4</u>
North Korean Exports		
USSR <u>a/</u>	51.0	74.6
European Satellites <u>b/</u>	16.4	14.2
Total	<u>68.0</u>	<u>88.8</u>
Total Trade with these Countries	<u>192.2</u>	<u>155.2</u>
USSR	(125.7)	(114.0)
European Satellites	(66.5)	(41.2)

a. Vneshnyaya Torgovlya, 1959-60. U.

b. Trade Handbooks of the European Satellites. Data for Hungary and Bulgaria estimated for 1960. U.

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Table 2

North Korea's Trade with the USSR, 1959, 1960 a/

Commodity	Thousands of US \$	
	1959	1960
Total Imports	<u>74,137</u>	<u>39,405</u>
Machinery and Equipment	29,727	9,552
Manufactured Goods (including ferrous and non-ferrous metals and ferro-alloys)	20,100	6,811
Other Manufactured Goods	4,570	2,145
Petroleum Products	9,814	9,455
Chemical Products	3,099	1,682
Foods	4,153	5,025
Crude Materials (including cotton and asbestos)	647	2,835
Fats and Oils	-	454
Total Residual	2,027	1,446
Total Exports	<u>51,600</u>	<u>74,592</u>
Ferrous Metals	9,442	20,004
Non Ferrous Metals and Alloys	7,092	10,173
Chemical Products	4,671	8,268
Building Materials	2,419	5,535
Electrical Equipment	1,340	2,746
Other Manufactured Goods	1,288	1,000
Foods	6,773	8,642
Tobacco	1,567	1,159
Crude Materials (including ores, metallic concentrates and medicinal raw materials)	12,775	13,264
Total Residual	4,233	3,801

a. Vneshnyaya Torgovlya, 1959-1960. U.

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